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Viewing cable 08MOSCOW2816, GAZPROM OFFICIAL DESCRIBES THE COMPANY AS A SOCIALIST RENT-SEEKING MONOPOLIST

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Reference ID	Created	Released	Classification	Origin
08MOSCOW2816	2008-09-19 07:48	2011-08-30 01:44	CONFIDENTIAL	Embassy Moscow

Appears in these articles:

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SUBJECT: GAZPROM OFFICIAL DESCRIBES THE COMPANY AS A SOCIALIST RENT-SEEKING MONOPOLIST

REF: MOSCOW 2802

SUMMARY

11. (C) Gazprom's Director of Foreign Relations, Ivan Zolotov, told us September 12 that the company's top three priorities are to: fulfill domestic gas demand, fulfill "social obligations," and to maximize control over domestic and international oil and gas resources. Zolotov expressed confidence that control of resources would eventually restore the \$200 billion in shareholder value losses the company has recently sustained. He said Gazprom is steadfastly against other Russian companies competing on gas exports to Europe, which could lead to lower prices. Zolotov was unapologetic about the difficulty in meeting with its senior officials, noting that most of them were ill-suited to interacting with foreign officials but that the company had no intention of hiring people for that purpose. Finally, he expressed optimism that there would be no difficulties this winter with Ukraine. End summary.

THE MINISTRY OF GAS

12. (C) During a lengthy meeting at Gazprom's elaborate headquarters, a city within a city as Zolotov described it, we asked Gazprom's main interlocutor with Western Embassies and officials to identify Gazprom's top two or three corporate priorities. In an unusually frank response, Zolotov said Gazprom had two basic functions: to fulfill the gas needs of domestic industrial and residential consumers, and to fulfill its "social obligations," which include a variety of, in effect, charitable projects throughout the country.

13. (C) When we suggested that most major global companies in the West would likely have cited maximizing shareholder value or market share as corporate goals, Zolotov added a third priority -- to maximize control over global energy resources. He suggested that this control over resources is on par with maximizing shareholder value, in that it raises the value of a company's asset base, which is the key to its long-term profitability.

14. (C) Zolotov acknowledged that the steep slide in the Russian stock markets since May, and especially since August 7, had taken a toll on Gazprom's shareholder value. The company was valued at more than \$380 billion at its peak a few months ago and is now worth less than \$150 billion -- a stunning loss of over \$200 billion of the company's market capitalization. Zolotov expressed confidence that the company's control of gas and oil reserves would ultimately restore that lost value.

MONOPOLY PROTECTS HIGH PRICES

15. (C) In describing its priorities, Zolotov seemed to appreciate that Gazprom is not a normal company, noting that it had not yet completed the transition from its predecessor, the Ministry of Gas. He was equally frank in discussing how Gazprom's monopoly powers work in practice. For instance, when asked about recent efforts (ref A) to force Gazprom to allow third-party access (TPA) to its pipelines, Zolotov said that access in itself is not a problem. Indeed, he suggested that in 15-20 years, some 30% of gas production in Russia will come from independents.

16. (C) Zolotov added, however, that Gazprom draws a redline against sharing access, through monetary compensation or physical connection, to export markets. He explained that Gazprom's export monopoly is necessary to protect the high prices charged to European consumers. He said TPA could never apply to exports "because we can't let Russian gas

compete against Russian gas; that would cause prices in Europe to drop."

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ONLY TWO INTERLOCUTORS; AND THEY'RE BUSY

¶7. (C) Zolotov also touched on the reason it is so difficult to get meetings with the company for high-level visitors. According to Zolotov, in a company with over 400,000 employees, only two -- CEO Alexey Miller, Deputy CEO Alexander Medvedev -- would be appropriate for such meetings. He said few others, if any, would have the requisite knowledge, authority, and diplomatic skills for such meetings.

¶8. (C) Moreover, Zolotov said, both men were constantly traveling, and hard to schedule; even scheduled meetings were subject to sudden cancellations. By way of example, Zolotov noted the recent visit to Moscow by Quebec's Energy Minister. Despite Gazprom's desire to do a deal in Quebec, he could not get a meeting for the Minister with either Miller or Medvedev. Zolotov, however, brushed off the need for staff to conduct such outreach saying "we're not going to hire someone just to meet with Energy Minister of Quebec."

UKRAINE

¶9. (C) On Ukraine, Zolotov expressed optimism that there would be "no problems" this year in price and contract negotiations. He said there was even hope for a multi-year contract to prevent the annual hand-wringing over the Russia-Ukraine gas trade.

COMMENT

¶10. (C) Our own observations of Gazprom track with Zolotov's candid description -- a rent-seeking monopolist, looking to control resources wherever possible, and with a relatively simplistic sense of responsibility to shareholders other than the state. Perhaps the best hope for moving Gazprom toward a model more compatible with modern definitions of a competitive global business is continued and expanded interaction with western partners. End comment.
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